


**Asset Management**

# Deforestation

For professional investors only

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We recognise that ending deforestation has a crucial role in achieving net zero emissions.

As signatories to the Net Zero Asset Managers initiative, we have set an ambition to reach net zero emissions across our assets under management by 2050 or sooner.

Our approach to deforestation will be an important element in securing this ambition.

Reversing deforestation is also essential in addressing biodiversity loss. We are signatories to the Finance for Biodiversity Pledge, which commits us to contribute to the protection and restoration of biodiversity and ecosystems through our investments.

Our policies on deforestation will form part of our fulfilment of this pledge.



The effort to limit the impact of climate change by reducing harmful emissions cannot be successful without tackling deforestation. Deforestation releases carbon into the atmosphere from trees that are cut down and from loss of the ecosystems which they support; it also reduces the stock of trees and plants that absorb carbon from the atmosphere.

In 2013, the Intergovernmental Panel on Climate Change (IPCC) estimated that deforestation contributed up to 10 per cent of carbon dioxide emissions caused by human activity, rising to 15 per cent if forest degradation and tropical peatland emissions were included.

Although efforts have continued since then to limit deforestation, in many parts of the world deforestation is still advancing. As carbon emissions from other sources are reduced, action on deforestation is essential; otherwise it will represent an increasing proportion of global emissions.

In its 2019 report, the IPCC identified turning the projected loss of 2 million km<sup>2</sup> of forests between 2010 and 2050 into a 9.5 million km<sup>2</sup> increase in global forest over the same period as a key element in a model pathway to limit global warming to 1.5 degrees Celsius. Sustainable forest management can maintain or enhance forest carbon stocks and carbon sinks.

Global warming and deforestation are inter-linked. The 2022 IPCC working group report on impacts, adaptation and vulnerability emphasised how projected climate change, combined with non-climatic drivers, will itself cause further loss and degradation of much of the world's forests. Near term (2021-40) risk for biodiversity loss was assessed as moderate to high in forest ecosystems.

Forest ecosystems have enormous inherent value – the 2021 Dasgupta Review of **The Economics of Biodiversity** for the UK Government highlighted how tropical rainforests contain an estimated 50 per cent of the Earth's species. Forest ecosystems also have an important role in effective adaptation to climate change, for example upstream forests, alongside natural river systems and wetlands, reduce flood risk by storing water and slowing water flow in most circumstances.

Global action to reduce and reverse deforestation is essential for the climate and for the biodiversity of our planet. As investors, we are playing our part in addressing the challenge.



Our biodiversity policies include commitments to encourage change in how companies manage their exposure to deforestation risk.

We engage selectively with investee companies to reduce their negative and increase their positive impacts on biodiversity. In particular, we encourage them to:

- ◆ avoid or minimise impacts on biodiversity and ecosystem services
- ◆ manage living natural resources, such as forests, in a sustainable manner
- ◆ improve efficiency in the consumption of energy, water, and other resources
- ◆ avoid or minimise the release of pollutants to air, water, and land
- ◆ use independent certification systems such as Forestry Stewardship Council (FSC) and Programme for Endorsement of Forest Certification (PEFC) for timber and Roundtable on Sustainable Palm Oil (RSPO) for palm oil, which evidence a reduced risk to biodiversity in forestry and agricultural commodity supply chains
- ◆ commit to 'No Deforestation, No Peat and No Exploitation' policies.





We have a long record of engagement to encourage companies to limit deforestation impacts.



We were co-leaders from 2018 – 2021 in engagement with six companies as part of a collaborative engagement initiated by the PRI and Ceres with more than 40 companies exposed to deforestation risk in their supply chains. This encouraged companies to demonstrate commitment to eliminating deforestation within their supply chain. We investigated and encouraged good practice in: awareness and governance; risk management and traceability; strategy and risk mitigation; and metrics and monitoring. The engagement covered several commodities including palm oil and cattle.

Two international sportswear manufacturers were notable examples of our engagement, with both involved in the cattle supply chain through use of leather in their products. We held a series of meetings with both companies in which we asked about their monitoring programmes to prevent deforestation linked to cattle, their involvement in the industry collaboration Leather Working Group and the status of their policies on deforestation.

Both companies demonstrated a good understanding of the issue and were gradually phasing out the use of leather. They collaborated with other members of the Leather Working Group to advance audit and monitoring standards. In one example of good practice, one of the companies used GPS to monitor the potential violation of boundaries in areas from which it was sourcing leather.

We participated in a 2019 statement on deforestation and forest fires in the Amazon which was endorsed by over 250 investors representing approximately \$17.7 trillion in assets. The extreme fires in the Amazon, the world's largest rainforest, had prompted a collective response from investors due to climate and biodiversity impacts. The statement called on companies to publicly disclose and implement a commodity-specific no deforestation policy and establish a transparent monitoring and verification system for supplier compliance.

We also participated in collective engagement campaigns to encourage corporate disclosure of exposure to deforestation and management of the associated risks.

Between 2017 and 2021, we were lead or co-signatory to 320 letters to companies exposed for deforestation risk as part of the CDP's annual campaign to encourage companies to respond to its questionnaire on deforestation. These letters emphasised the importance to investors on appropriate assessment, management and reduction of deforestation risk management (some letters would have gone to the same company in successive years).

During the course of our participation, some 40 companies for which we have been the lead or co-signatory responded to the CDP questionnaire. These companies had previously declined to participate in the survey; their responses improved accountability for listed companies' response to deforestation, even if the overall response rate remained disappointing.

In 2022 our engagement to encourage participation in CDP questionnaires – including for deforestation – was more selective, linked to our more focused engagement activity.

We also amended our voting to raise the bar for companies identified as having poor management of the biodiversity and nature risks, including deforestation. We established a watchlist of around 60 companies based on third-party assessments of how companies are managing biodiversity and nature-related risks. We vote against the chair or relevant board directors of companies on this list.

During the 2022 voting season, we voted against 11 directors based on concern about their respective companies' management of nature-related risks (typically only a portion of company chairs, alongside other directors, face re-election every year).

We have a record of supporting shareholder proposals calling for greater transparency on deforestation and nature related risk, although there are relatively few of these as a proportion of all shareholder proposals. We voted for 19 shareholder proposals related to biodiversity loss during 2022, including one concerning an American home related products retailer on the elimination of deforestation in supply chain.

We continue to engage with companies on their management of deforestation risk. Deforestation was recorded by our investment teams amongst engagement topics raised with more than a dozen companies in 2021, in addition to engagements linked to CDP letters.

One of the companies prioritised for engagement by our stewardship team is one of the largest meat processing companies in the world. It produces factory processed beef, chicken and pork, as well as associated bi-products. Although present in 20 countries, its exposure to land use and deforestation risk issues in the Amazon has made it a particularly important engagement subject for deforestation and biodiversity, alongside other governance and equality issues. We have had engagement contact with this company three times so far in 2022.

The company has committed to zero deforestation, yet third-party reports allege that deforestation continues to occur in its supply chains. Although our engagements with them have covered a range of issues, we have focused on deforestation and what the company is doing to address this.

We discussed at length how the company is using blockchain technology to monitor its supply chains, as well as geospatial data to monitor land use change associated with deforestation. At present the monitoring is focused on direct suppliers, but it plans to expand this oversight to include third party suppliers. We also discussed how the target company is educating farmers to use these tools so as to ensure accuracy, and that farmers understand the importance of addressing deforestation.

We discussed plans to diversify the product portfolio to include alternative proteins.

It will take time for the new technology to yield results (on both fronts) but we have set expectations including that we want to see the target company demonstrate that technology-enabled improvements and new governance processes are effective.

The company recently hired a new senior staff member from a nature-focused NGO to work on deforestation plans.

We will continue to engage with the company on deforestation as well as on labour practices and human rights. We have also met with NGOs to discuss their concerns around this company.



We recognise the need for further action to address deforestation both as part of our ambition for net zero emissions across our assets under management and to reverse biodiversity loss.

As we develop our commitments under the Net Zero Asset Managers initiative, we are considering our policy objectives on deforestation alongside other issues which need to be addressed to deliver net zero.

We are aware of calls for 'deforestation free portfolios' and are examining what would be the implications of this for our clients and how far data currently available to investors could support such a commitment.

Our commitment to the Finance for Biodiversity Pledge provides the pathway for meaningful action to deepen our consideration of biodiversity issues – including deforestation – across a range of fronts:

- ◆ **Collaboration and knowledge sharing** – on assessment methodologies, biodiversity-related metrics, targets and financing approaches for positive impact. We participate actively in industry groups including Club B4B+, led by CDC Biodiversité in France, which is focusing on a developing a Global Biodiversity Score (GBSTM), and those organised through the Finance for Biodiversity Pledge.
- ◆ **Engaging with companies** – we will build on our record of engagement to enhance deforestation and biodiversity criteria in our policies, while continuing to engage with companies to eliminate deforestation from supply chains, reduce their negative and increase positive impacts on biodiversity.
- ◆ **Assessing impact** – we aim to assess our investments for significant positive and negative impacts on biodiversity – including deforestation – and identify drivers of biodiversity loss. We are starting to integrate biodiversity metrics from external research providers where we consider this is a material issue and actively address through our collaborations the limitations of existing biodiversity metrics. We already exclude from our sustainability portfolios companies with exposure to a limited number of biodiversity risks, including those with UN Global Compact breaches relating to the Rio Declaration on Environment and Development.
- ◆ **Reporting and target setting** – before 2025 at the latest, we will report annually on our progress and be transparent about our biodiversity impact. We expect this reporting to improve over time as the guidelines and metrics evolve. We will also set and disclose targets based on the best available science to increase significant positive and reduce significant negative impact on biodiversity.

We believe that reversing deforestation and wider biodiversity loss will require a reassessment of the value – including financial value – of natural capital. We aim to build one of the world's largest natural capital managers through our joint venture Climate Asset Management, creating funds in activities that preserve, protect and enhance nature over the long-term.



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